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THE BITTERNESS OF FISCAL REALISM

GUOMINDANG TARIFF POLICY, CHINA'S TRADE IN IMPORTED SUGAR, AND SMUGGLING 1928-1937



INTERNATIONAL BRIDGE, TIENTSIN, C.1920-1940, © HISTORICAL PHOTOGRAPHS OF CHINA. BY KIND PERMISSION.

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INTRODUCTION

The defeat of the Chinese Nationalist Party (Guomindang) in the Chinese Civil War in 1949, and the demise of the Nationalist state on the Chinese mainland are often explained as a consequence of the incompetence, mismanagement and corruption of Nationalist governance. In this approach, fiscal incompetence is understood as but one manifestation of the low effectiveness of Nationalist

governance, and the Guomindang's efforts to redesign the Chinese tax system during the Nanjing decade (1928-1937) are associated with rapacious revenue extraction.¹ And yet central government revenue increased on an annual basis for most of this period, indicating that the extraction level of Nationalist fiscal policy was sustainable (see table 1).

¹ E.g. Lloyd E. Eastman, *The Abortive Revolution: China under Nationalist Rule, 1927-1937* (Cambridge, MA: Harvard University Press, 1974): 228-230.

Table 1, National Government Receipts, Fiscal Years 1929-1937² (million yuan)

| | 1929 | | 1930 | | 1931 | | 1932 | | 1933 | | 1934 | | 1935 | | 1936 | | 1937 | |
|--|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|-------------|--------------|-------------|-------------|-------------|--------------|
| | % | | % | | % | | % | | % | | % | | % | | % | | % | |
| Tax | 246 | 56.4 | 451 | 77.1 | 531 | 68.3 | 616 | 80.6 | 582 | 79.8 | 660 | 73.3 | 649 | 62.9 | 622 | 53.2 | 769 | 61.5 |
| Borrowing (domestic bonds, bank loans, overdrafts, and cotton-wheat loan of 1933) | 89 | 20.4 | 101 | 17.3 | 217 | 27.9 | 130 | 17.0 | 112 | 15.4 | 179 | 20.0 | 225 | 21.9 | 276 | 23.7 | 336 | 26.8 |
| Other non-tax revenue (government property, enterprise, and administrative receipts) | 101 | 23.2 | 33 | 5.6 | 30 | 3.8 | 18 | 2.4 | 35 | 4.8 | 32 | 3.6 | 98 | 9.5 | 180 | 15.4 | 101 | 8.1 |
| Cash balance from previous year | | | | | | | | | | | 28 | 3.1 | 59 | 5.7 | 90 | 7.7 | 45 | 3.6 |
| TOTAL | 436 | 100.0 | 585 | 100.0 | 778 | 100.0 | 764 | 100.0 | 726 | 100.0 | 897 | 100.0 | 1029 | 100.0 | 1166 | 99.9 | 1251 | 100.0 |

^a Fiscal year = 1 July–30 June.

Source: Adapted from Arthur Young, *China's Nation Building Experiment, 1927–37*, (Stanford, Calif.: Hoover Institution Press, 1971), 433–5.

During the period under review, Customs revenue constituted the single greatest share of central government revenue (see table 2). Nationalist tariff policy, therefore, constitutes a good test of pessimistic interpretations of Guomindang fiscal policy. If the burden of Nationalist tariff policy had been unsustainable, we would expect to see evidence of China's international trade having ground to a halt by the end of this period. Instead, that trade was in a robust condition just before the Japanese invasion of China proper in July 1937, as this extract from the British Embassy's country report for 1937 demonstrates:

Had it not been for the hostilities, the trade figures for 1937 might well have approached those of the previous record year of 1931, before the world depression had begun to affect this country. By the end of July [1937], imports had gained 36.7 per cent and exports 45.5 per cent [on the previous year's figures]. In fact, in the summer of

1937, China's foreign trade was for the first time showing that it had almost completely recovered from the financial crisis of 1934–1935, which was caused largely by the exodus of silver owing to the high price of metal abroad.³

That international trade grew during a period of increasing tax burden suggests that the story of Nationalist fiscal policy during this period is more complicated than is suggested by the work cited above. This article will use the example of tariff policy to argue that during the Nanjing decade, the Nationalist Government consciously pursued fiscal stability through increased revenue extraction. Over the decade, Nationalist government central government revenue saw an overall increase as well diversification. Customs revenue more than doubled between 1929 and 1937. At the same time, the relative share of Customs

² Julia Strauss, *Strong Institutions in Weak Polities: State Building in Republican China, 1927–1940* (Oxford: Clarendon Press, 1998): 120.

³ "Annual Report on China for 1937," in Sir A. Clark Kerr to Viscount Halifax, (29th April, 1938) [F6312/6312/10], in *British Documents on Foreign Affairs* (hereafter BDFA), Part II, Series E, Asia, 1914–1939, Vol. 21, China, 1932–1939, edited by K. Bourne, D. Cameron Watt, and A. Trotter, (Fredericksburg, Maryland: University Publications of America, 1992): 372–73.

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revenue among tax revenue dropped from 72.8 percent to 49.5 percent.

Despite this ostensible success, fiscal stability came at the cost of a loss of political capital. As I will show in this article with reference to imported sugar, increased import tariffs drove many Chinese consumers to consume smuggled sugar instead of paying a higher price for heavily taxed imported sugar. Increased import tariffs gave the Nationalist Government the ability to meet its foreign financial obligations and to finance rising central government expenditure in the 1930s. And yet, their unintended consequence was a dramatic increase in smuggling which, by its widespread and visible nature disproved the Nationalist Government's claims to administrative modernity and efficiency.

Table 2, National Government Tax Receipts, Fiscal Years 1929-1937^a (million yuan)

| | 1929 | | 1930 | | 1931 | | 1932 | | 1933 | | 1934 | | 1935 | | 1936 | | 1937 | |
|------------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|-------------|------------|--------------|
| | % | | % | | % | | % | | % | | % | | % | | % | | % | |
| Customs | 179 | 72.8 | 276 | 61.2 | 313 | 59.0 | 370 | 60.1 | 326 | 56.0 | 352 | 53.3 | 353 | 54.4 | 272 | 43.7 | 379 | 49.3 |
| Salt | 30 | 12.2 | 122 | 27.0 | 150 | 28.2 | 144 | 23.4 | 158 | 27.1 | 177 | 26.8 | 167 | 25.7 | 184 | 29.6 | 197 | 25.6 |
| Consolidated Tax | 30 | 12.2 | 41 | 9.1 | 53 | 10.0 | 89 | 14.4 | 80 | 13.8 | 106 | 16.1 | 105 | 16.2 | 135 | 21.7 | 158 | 20.5 |
| Tobacco/wine | 4 | 1.6 | 7 | 1.6 | 9 | 1.7 | 8 | 1.3 | 10 | 1.7 | 13 | 2.0 | 11 | 1.7 | 15 | 2.4 | 15 | 2.0 |
| Stamps | 3 | 1.2 | 5 | 1.1 | 6 | 1.1 | 5 | 0.8 | 5 | 0.9 | 8 | 1.2 | 7 | 1.1 | 10 | 1.6 | 9 | 1.2 |
| Income tax | | | | | | | | | | | | | | | | | 7 | 0.9 |
| Mining | | | | | | | | | | | 2 | 0.3 | 4 | 0.6 | 4 | 0.6 | 4 | 0.5 |
| Bank notes | | | | | | | | | 3 | 0.5 | 2 | 0.3 | 2 | 0.3 | 2 | 0.3 | | |
| TOTAL | 246 | 100.0 | 451 | 100.0 | 531 | 100.0 | 616 | 100.0 | 582 | 100.0 | 660 | 100.0 | 649 | 100.0 | 622 | 99.9 | 769 | 100.0 |

^a Fiscal year = 1 July–30 June.

Source: adapted from Arthur Young, *China's Nation Building Experiment, 1927–37*, (Stanford, Calif.: Hoover Institution Press, 1971), 433–4.

WHICH NATIONALIST GOVERNMENT?

There is not much doubt that the overall tax burden on Chinese consumers during the decade 1928–1937 was heavy as well as frequently unpredictable. It is important, in this context, to distinguish between taxes levied by the Nationalist Government in Nanjing and those levied by branch organizations of the Nationalist party-state in the provinces. The central government's hold on these was tenuous, at best. Indeed, there is a conceptual question here: whom do we mean when we speak of Nationalist fiscal policy? Is it disingenuous, when discussing Guomindang fiscal policy, to focus on the policies of the central party-state in Nanjing when we know fully well that for many Chinese at the time, Nanjing mattered much less than did their local power-holder, even in areas under the Nationalist Government's jurisdiction? I would argue that it is not, since, when we speak of the Nationalist Government, it is of the central party-state in Nanjing that we think first.

We do, however, need to be precise in defining

⁴ Strauss, *Strong Institutions in Weak Polities*, 124.

what part of the Nationalist polity we are discussing. Joseph Esherick's caveat against understanding the Chinese Communist party-state as a "unified, disciplined historical agent" applies in equal measure to writing the history of the Nationalist party-state.⁵ With that mind, this article is an investigation into the effect of the tariff policy of the central party-state in Nanjing on the development of China's trade in imported sugar.

NATIONALIST TARIFF POLICY

Nationalist tariff policy was primarily oriented towards producing central government revenue. In the course of achieving this aim, it created patterns of consumption that privileged some domestic consumers and producers at the cost of others. Eastman and others have pointed out that peasants bore a heavy weight of

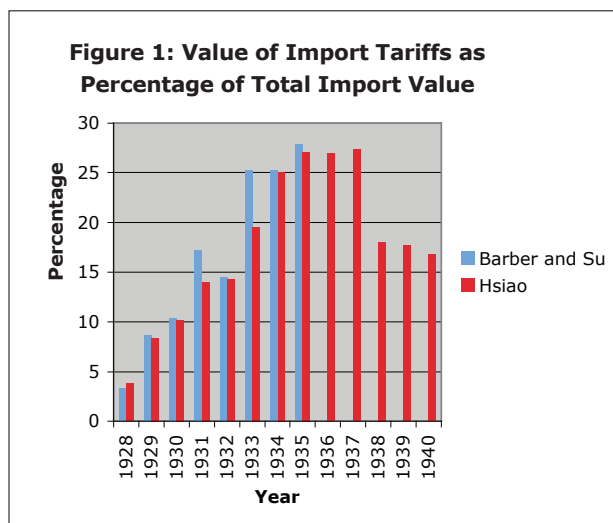
taxation as a result of the land tax and the salt monopoly.⁶ My research suggests that Chinese consumers in general also bore the brunt of increases in commercial taxation, particularly on articles such as sugar, cotton, kerosene and artificial fertilizer. Protectionist tariff policy was attempted where it was fiscally and politically possible; government efforts to shape consumption according to its own vision were substantially constrained by external factors, such as Japanese political, military and economic aggression, and revenue considerations.

The Republic of China's first tariff after regaining tariff autonomy was promulgated on December 7, 1928 and implemented from February 1, 1929. Figure 1 shows the values of import tariffs as a percentage of total import values. This figure, which is the average of import tariffs in percent, is an indicator of the heaviness of import tariffs. The first column shows the values arrived at by Frank Kai-Ming Su and Alvin Barber in 1936. Su and Barber do not explain their choice of totals for import value and

⁵ Joseph Esherick, "Ten theses on the Chinese Revolution," *Modern China* 21, no.1 (1995): 63.

⁶ Eastman, *The Abortive Revolution*, 205–208.

import tariff value.⁷ Recalculating their indicator with the respective values provided in Hsiao Liang-lin's statistical compilation, I have arrived at values that are only slightly different for all years except 1931 and 1933.⁸ Both sets of indicators show that beginning from 1929, the year of tariff autonomy, China's imports were taxed increasingly heavily until the beginning of the Sino-Japanese War in 1937; from 1939 onwards, imports were taxed more lightly once more.



Through increased import tariffs, the Nationalist Government sought to achieve two objectives: firstly, to increase its revenue; and secondly, to extend tariff protection to Chinese economic interests. In order to understand why those twin objectives were frequently at variance with one another, it is necessary for us to consider briefly a concept of the economics of taxation, the Laffer curve. From a government's point of view, the optimum rate of taxation is the highest point of a bell curve; lowering or raising the rate of taxation will lead to lower taxation revenue. Although the Laffer curve was popularized in the 1970s, the inverse relationship between tax rate and tax revenue beyond a certain point was known long before. Frederick Maze, then Commissioner of Customs in Shanghai, warned the Nationalist Government in 1927 against raising tonnage dues, pointing out that increasing the cost of landing goods at Shanghai would drive importers to land their goods elsewhere instead. Maze warned Song Ziwen that according to a Western proverb, it was "unwise to strangle the goose that lays golden eggs".⁹

⁷ Frank Kai-Ming Su and Alvin Barber. "China's Tariff Autonomy: Fact or Myth?" *Far Eastern Survey* 5, no.12 (1936): 115-122.

⁸ Hsiao Liang-lin. *China's Foreign Trade Statistics, 1864-1949* (Cambridge, MA: Harvard University East Asia Research Center, 1974): 24, 133.

⁹ National Archives: Public Record Office FO 371/12414 Frederick Maze, 'Remarks on Imposition of Surtax on Tonnage' (Translation), July 23, 1927, in Sir Sidney Barton to Sir Miles Lampson, no. 43, July 28, 1927.

At the same time, the optimum rate of import taxation from a protectionist point of view is not the highest point on a Bell curve; rather, it is as high a rate as is politically possible. From a protectionist point of view, the less foreign competition for domestic goods, the better. This objective is best achieved through high rates of taxation; hence the People's Republic of China's import tax of over 100 percent on imported cars until recently¹⁰ (abolished under WTO harmonization procedures), or the 70 percent rate on "lace trimmings, embroideries, plushes, velvets, silk piece goods, natural and artificial", in the 1929 tariff.¹¹ These high rates, besides protectionist considerations, were also influenced by revenue considerations and prescriptive visions about Chinese consumption.

Given the basic contradiction between revenue considerations and protectionist considerations, how did the GMD use the tariff schedule to further their political aims? At the time that the first autonomous tariff was implemented in 1929, the Government announced that it would use its newly gained tariff autonomy not only to increase tariff revenue, but also to protect and further the growth of domestic industries. Subsequent tariff schedules until 1938 were affected by this basic contradiction, with the international repercussions of tariff changes forming another important factor affecting tariff policy.

THE CASE OF SUGAR

The trade in imported sugar offers an opportunity to examine the effect of Nationalist tariff policy on the trade in one specific commodity. In Republican China, sugar was a necessity, used both as a spice and as a preservative in the preparation of food. By the early twentieth century, Chinese consumers had acquired a taste for refined sugar in preference to raw sugar. Refined sugar thus became one of the most important imported goods; as such, it attracted steadily increasing import tariffs, which significantly reduced the importation of sugar throughout the 1930s. Domestic consumers were driven either to revert to using domestically produced raw sugar, or to purchase smuggled refined sugar. In this way, refined sugar became the commodity most widely smuggled into China in the 1930s.¹²

After regaining tariff autonomy, import tariffs on sugar were increased in four main steps, which became effective in 1929, 1931, 1933 and 1934 respectively. Taking refined sugar as an example, import tariff rates increased from Customs Gold Units (hereafter CGU) 0.019/kg in 1929 to CGU 0.047/kg in 1931 and CGU 0.096/kg in 1933.

¹⁰ People's Republic of China, "1999 Tariff Law", accessed on November 22, 2007, www.chinavista.com/database/cides.

¹¹ "Customs Import Tariff of the Republic of China." In *China Yearbook, 1929-1930* (Tianjin: Tientsin Press Ltd., 1929): 238-66.

¹² Haldore Hansen, "Soldier, Smuggler and Diplomat." *Pacific Affairs* 9, no.4 (1936): 544-56; Burke Inlow. "Japan's 'Special Trade' in North China, 1935-1937." *Far Eastern Quarterly* 6, no.2 (1947): 139-67.

For the purpose of comparison, I have converted the 1928 figure from Haiguan Taels into CGU at the 1930 exchange rate, the CGU only having been introduced in 1930.¹³ Also, I have converted piculs into kilograms.¹⁴ Again converted at 1930 exchange rates, the 1928 import tariff is equivalent to 0.70 US\$/kg, the 1930 rate to 1.90 US\$/kg and the 1933 rate to 3.84 US\$/kg.

In 1931, the Customs changed their method of classifying sugar for valuation purposes from using the Dutch Sugar Standard, a visual examining aid, to measuring the polarization of sugar dissolved in water, a chemical procedure. This change led to a much more differentiated import tariff scale for sugar. While I have no disaggregated figures for different kinds of sugar, figure 2 shows the trend in volume and value of imported sugar for the period under consideration. To ensure the statistical uniformity of my tables and graphs I have converted post-1933 figures from National Dollars into Haiguan Taels.

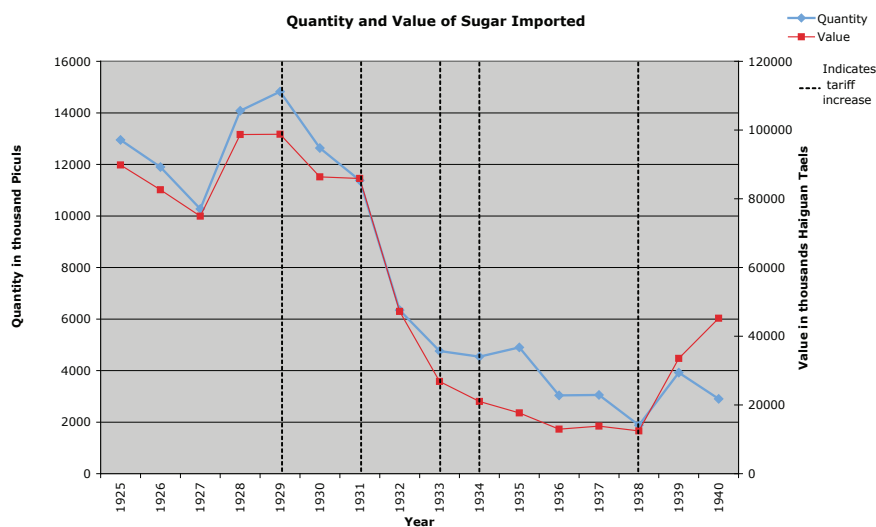


Fig 2: Quantity and Value of Sugar Imported¹⁵

Figure 2 shows clearly the effect of increased tariffs on imported sugar; sugar importation peaked in terms of both value and quantity just before tariff autonomy, as merchants were buying speculatively in expectation of a tariff increase following China's regaining of tariff autonomy. The tariff increases of 1929 and 1931 reversed this speculative trend. In 1932, sugar imports for the whole country fell because of price agreements among the international sugar cartels; in the International Sugar Convention of 9th May 1931, eight sugar-producing

¹³ 1 Haiguan Tael = 1.55 National Dollars, SHAC 679/1/26912 IG Circular 2nd Series No 4588, March 1933.

¹⁴ 1 picul = 60.48 kilograms, Hong Kong SAR Government, "Weights and Measures Ordinance", June 30, 1997. See www.legislative.gov.hk.

¹⁵ Hsiao Liang-lin, *China's Foreign Trade Statistics, 1864-1949* (Cambridge, MA: Harvard University Press, 1974): 68.

countries accounting for 60 percent of sugar exports agreed to limit exports in the interest of preserving price stability on the international sugar market.¹⁶ Sugar trade was also disrupted by the Japanese attack on Shanghai, while purchasing power was diminished because of the 1931 floods.¹⁷

In 1933, Chinese consumers began to feel the effect of import duties assessed on polarization basis rather than on the basis of the Dutch Sugar Standard (see above). The increased import duty "priced imported sugar out of the range of most consumers".¹⁸ As a result, both the smuggling of foreign sugar into China and the domestic cane sugar industry experienced a period of growth. In 1934, import tariffs averaging 222.25 percent of the c.i.f. (i.e. cost, insurance, freight) price of imported sugar contributed to a continued increase of smuggling. Ding Guitang (丁贵堂), a senior official in the Chinese Maritime Customs Service reported from Guangdong in 1934 that "the present import tariff on sugar is so high and the market price of sugar so low that no legitimate trade in sugar can exist".¹⁹

The Maritime Customs Service claimed to have asserted some control in Hebei and Shandong Provinces and forced imported sugar back on the legal market. Overall, there was a decline in imported sugar because of the depressed state of China's domestic economy.²⁰ The currency reform of 1935 increased the purchasing power of Chinese consumers abroad and led to a slight increase of sugar imports, particularly from Japan and Taiwan. At the same time, the Nationalist

Government attempted to develop the domestic sugar industry.²¹ In 1936, international suppliers of sugar lowered their wholesale price in order to recover the China market, but even so, markets remained depressed, particularly because importers did not have sufficient confidence in the market to make forward purchases of imported sugar.²²

¹⁶ Horacio Crespo. "Trade Regimes and the International Sugar Market, 1850-1980: Protectionism, Subsidies and Regulation." In *From Silver to Cocaine: Latin American Commodity Chains and the Building of the World Economy, 1500-2000*, edited by Stephen Topik, Carlos Marichal and Zephyr L. Frank (Durham, NC: Duke University Press, 2006): 163.

¹⁷ *Trade of China 1932*, Vol.1, 50.

¹⁸ *Trade of China, 1933*, Vol.1, 46.

¹⁹ Second Historical Archives of China (hereafter SHAC) 679/14715 K.T. Ting to IG of Customs, Special No 1304, January 30, 1934.

²⁰ *Trade of China, 1934*, Vol.1, 52.

²¹ *Trade of China, 1935*, Vol.1, 58.

²² *Trade of China, 1936*, Vol.1, 69.

In keeping with the overall trend of import trade and economic development, the import sugar trade increased in 1937 until the Japanese invasion of the North China Plain and renewed attack on Shanghai. After the outbreak of hostilities, sugar imports declined rapidly.

In sum, increased import tariffs in 1929, 1931 and 1934 caused a significant decline in both quantity and value of imported sugar. The effect of rising tariff rates in driving up the price of imported sugar was compounded by the supply policy of foreign sugar cartels in the early 1930s. Furthermore, sugar was smuggled into China both from Taiwan and, after 1931, from the Japanese-controlled Manchurian provinces as part of measures to destabilize the Chinese economy. Sugar imports increased again after 1937, when tariffs on imported sugar were lowered in Japanese-controlled areas and the Japanese Military Authorities curbed smuggling.

SMUGGLING AS A CONSEQUENCE OF NATIONALIST TARIFF POLICY

Increased Customs revenue and the growth of native industries such as the sugar industry were an intended result of Nationalist tariff policy. Smuggling was not. In 1930s China, smuggling chiefly occurred in three areas: the Pearl River Delta (from Hong Kong and Macao), the Fujian coastline (from Taiwan), and in North China. After the Japanese annexation of Manchuria in 1931, the smuggling in this region moved to the border region between Fengtian Province and the northernmost part of China proper, Zhili Province.²³ An unsigned Customs memorandum from 1933 noted:

Sugar is smuggled wholesale: the only sugar which pays duty in Hainan is sugar which has been seized by the Customs. Smuggled sugar comes mostly from the Straits and Java by junk and from Kwangchowwan. Sugar is shipped in large quantities from Hongkong to Kwangchowwan and Macao by steamers over which we have no control, and thence distributed by junks, snake boats, carriers and by any means of conveyance throughout Kwangtung: the quantities thus smuggled cannot be estimated since Hongkong Trade Statistics are very incomplete, the cargoes of many small steamers, junks, etc, being listed as sundries. Formosa is a great smuggling run for sugar; the greater part of the sugar is shipped by Japanese steamers from Java for Formosan ports in transit [...]. [...] Nearly 4,000 tons were so shipped by three Japanese steamers between 20th November and 31st December, 1932. Sugar is distributed from Formosa to various parts of the Fukien and Chekiang coasts by “puff-puff” boats and junks. The latter frequently load from steamers outside Formosan port limits. We are seizing huge quantities of this sugar and have

even forced some legitimate imports into Amoy and Foochow, but smuggling continues. Sugar leaves Dairen in junk loads and “puff-puff” boat loads for the Shantung and Kiangsu coasts; smuggling has increased by leaps and bounds since we lost control at Dairen.²⁴

Customs records show that smuggling from occupied Manchuria into the North China Plain was tolerated and protected by the Japanese Military Authorities. Whether they also encouraged it is more difficult to establish; not least because, from the 1920s onwards, the Guandong Army²⁵ had a foreign policy agenda quite different from that of successive imperial governments in Tokyo. The most direct admission of Japanese unwillingness to curb smuggling from the Japanese client state of Manchukuo (created in 1932) into the North China Plain was made by a Japanese official identified only by his surname, Sumi, to the British Commercial Counselor in Tokyo in April 1936. Sumi stated that “he had for some time been pressing the [Nanjing] Government to reduce tariffs, but without success; [...] meanwhile, Japan could not agree to assist in suppressing smuggling”.²⁶

However, smuggling into the North China Plain did not begin only with the Japanese invasion of Manchuria. In August 1931, Luigi de Luca, the Tianjin Commissioner, wrote to the Inspector General that “the cheapness on the Tientsin market of Japanese Sugar and the fact that there [appeared] to be larger stocks of this commodity than the Customs Returns [could] account for” had induced him to suspect “that along the coast of the Gulf of Pohai there must be places where smuggling can easily be effected”.²⁷ After September 1931, Japanese importers in Tianjin were quick to take advantage of the Customs’ diminished position in enforcing the levy of tariffs. The Baifu (百福) Company, Japanese-owned despite its Chinese name, advertised to Tianjin merchants by a printed circular notice in the following terms in 1936:

Don’t you aware [sic] that if you import your cargo through Chitung district via Dairen you can save three quarters on the import duty as compared with the Tientsin Maritime Customs? In other words, it means to save you considerably on the cost of goods, and, consequently, it will enable you to meet the competitive price of the market.²⁸

²⁴ SHAC 679/30609 Unsigned Memorandum, Confidential, dated Shanghai, October 23, 1933.

²⁵ This refers to the Japanese army group based in the Japanese leased territory on the Liaodong Peninsula and along the South Manchuria Railway Zone.

²⁶ Mr. D.J. Cowan (Tokyo) to Mr. Eden, May 4, 1936, Telegram, No.234 [F2548/991/10], *BDEA* Part II Series E Vol. 44, China, January 1936-June 1937.

²⁷ SHAC 679/1/20385 L. de Luca to Maze, August 22, 1931, Tianjin No.9414.

²⁸ SHAC 679/1/20833 W.R. Myers to Maze, December 12, 1936, Tianjin No.10762.

²³ Now Liaoning and Hebei Provinces.

Customs officials mostly viewed smuggling into the North China Plain in terms of Japan's undeclared war against China. As B.E.F. Hall, responsible for the Chinese Maritime Customs' anti-smuggling operations for a time in the 1930s, recalled later, "the Japanese were encouraging and giving protection to smugglers of every description and they were also running drugs into China to debilitate the country folk".²⁹ Japanese economic aggression needs to be put into its local context, however. As early as July 1932, the Secretary of the Japanese Chamber of Commerce in Tianjin, Y. Kobayashi, wrote to the Commissioner of Customs in Tianjin to point out that "for three months or more, righteous importers of sugar [had] been suffering a heavy loss by unjust lower price [sic] in the market caused by smuggling on a large scale".³⁰ At the request of the Tianjin Commissioner of Customs, the Tianjin Japanese Chamber of Commerce also forwarded a copy of their correspondence to the authorities of the Guandong Leased Territory in an effort to enlist its support in suppressing smuggling by junks from the Guandong Leased Territory, in which the Customs Preventive Service was not allowed to function.³¹ In 1936, Japanese merchants in Tianjin again complained to their local consul about the influx of smuggled goods as damaging to legitimate Japanese commercial interests in China. This demonstrates that the notion of a concerted Japanese onslaught on China in the 1930s needs to be modified. Japanese subjects were asking the Chinese state to defend its border against smugglers; even from the most cursory attention to a daily newspaper, they must have learnt that many of these smugglers were either Japanese, or Korean subjects of the Japanese colonial empire. And these were not just small firms; rather, the protests emanated from the Tianjin representative offices of Mitsui and Mitsubishi, two of the largest Japanese corporations.³²

By this time, smuggling into the North China Plain was no longer only a clandestine undertaking. Commodities to be smuggled were transported by boat, train or lorry from Japanese-controlled territory into the North China Plain. Under the Tang'gu (塘沽) Truce between China and Japan of 31st May 1933, large parts of North China became a demilitarized zone. While the Customs continued nominally to function within this area, Customs guards were forbidden by the collaborationist government and the Japanese occupation forces to function effectively, on the threat of being entirely evicted from North China, and faced the risk of confrontation with Japanese troops

in case they tried to assert their jurisdiction over Japanese smugglers.

Assessing the fiscal effect of smuggling into the North China Plain involves counterfactual scenarios and extrapolations based on reports of intercepted smuggled goods. The difference between the cost of smuggled and legally imported goods was considerable in the case of sugar. Hanson estimates that in 1935 the Tianjin price of smuggled sugar was about 40 percent of the price of legally imported sugar in Shanghai. Also according to Hanson, had all goods smuggled into the Tianjin region paid duty at the Tianjin Custom House, the weekly receipts of that Custom House would have been 2 million Chinese dollars or 104 million dollars annually. The actual annual collection of the Tianjin Custom House in 1935 was 41 million Chinese dollars. In other words, through the addition of illegal trade, the value of goods traded in the Tianjin region tripled.³³ This assumption is counterfactual since, had duty been levied on them, many of the smuggled goods would not have been imported since there would not have been the same incentive to import them had the cost of importation to the merchant been higher. However, this estimate shows the seriousness of smuggling in the North China Plain at this point.

FACTORS INFLUENCING CHINA'S IMPORT TRADE

Nationalist tariff policy was governed by the Government's determination to raise the revenue necessary for successful public debt management. Because of this, it had an adverse impact on the consumption of imported goods. Various factors accounted for a long-term fall in the quantity and value of the importation of sugar and other imported goods such as kerosene, ammonium sulphate and cigarettes from 1928 until 1940. As one of the last countries in the world to retain a silver-based currency, which was only abolished in 1935, China was suffering from declining purchasing power abroad. Also, the ideology of both the New Life Movement, a GMD campaign, and of the National Goods Movement, a popular movement closely monitored, and often orchestrated by the GMD, emphasized the virtue of consuming domestic rather than foreign goods. Post-1931 figures lack the figures for goods imported into Manchuria, as these were not listed in Chinese trade returns after the Japanese annexation of Manchuria in 1931. Imports into the three north-eastern Manchurian provinces had accounted for 17 percent of China's import trade in 1931.

Chinese import trade was also affected by international economic factors entirely outside the Nationalist Government's control. A report on trade conditions in 1933 from the Tariff Secretary, Paul Barentzen, to the Inspector General summarizes these factors:

²⁹ B.E.F. Hall, "My Life and Work in China, 1913-1943", Hall Papers, Bristol University.

³⁰ SHAC 679/1/20385, Japanese Chamber of Commerce to Commissioner of Customs, Tianjin, 5th July 1932, in L. de Luca to Maze, 14th July 1932, Tianjin No. 9599.

³¹ SHAC 679/1/20385 Japanese Chamber of Commerce to Commissioner of Customs, Tianjin, 13th July 1932, in L. de Luca to Maze, 14th July 1932, Tianjin No. 9599.

³² Haldore Hanson, "Smuggler, Soldier and Diplomat", *Pacific Affairs* 9/4 (1936), p.552.

³³ Hanson, "Soldier, Smuggler and Diplomat", pp.545-546.

Although the appended figures indicate considerably declining importations throughout the period of 3 or 4 years, as the case may be, the cause does not altogether lie with the increased Tariff rates. The year 1929, as will be remembered, saw the Western countries at the height of a trade boom in which the market of this country, only just recovering from its own troubles and as yet on the fringe of advancing industrialism, did not participate to any great extent. But with the declining purchasing powers of the former through the year 1930, witnessing at the same time China's growth of industrialism and increasing prosperity, attention was being drawn towards her markets as an outlet for surplus goods which could not be disposed of in the already overstocked markets of Europe and America. The year 1931 which witnessed the catastrophic slump in trade and finance in these countries should have found in the markets of China depository for such surplus stocks. That they did so in many lines of goods is evidenced by the fact that 1931 produced a record revenue which could not have been entirely been due to increased duties, but also to a genuine demand for goods from abroad, particularly throughout the sections of the Tariff where the rates had been retained at a low level for various reasons.³⁴

With respect to the impact of economic nationalism on consumption, Frank Dikötter notes that “the majority of the working people may simply have ignored the movement for national goods” since “advantageous prices rather than economic nationalism were the key factors in substituting local equivalents for imported goods”. He concludes that “boycotts in particular, and economic nationalism in general, no doubt contributed to the price differentials between foreign and local goods, the introduction of higher import tariffs in 1931 being a good example, but long-term factors, such as a constant supply of cheap labour, labour-intensive manufacturing methods, and above all a willingness to adapt foreign designs closely to local purposes, were ultimately far more decisive”.³⁵

International economic factors were mostly beyond the Nationalist Government's control. But increased import tariffs during a difficult economic climate were not. Demand for imported goods proved to be highly price-elastic in all the examples studied; hence, increased tariffs led to a decline in the quantity and value of imports, and a shift of importation into illegal channels. In the first place, tariff incidence lay with retail merchants, who then passed it on to individual consumers. According to the Customs, it was common for importers to pass the duty on to retail merchants:

“by including in the sales contract a clause that duty is payable by the purchaser a wholesale importer of foreign goods into China is in a position to protect himself against a sudden and unexpected rise in the amount of duty, whether caused by a change in the tariff rate or an increase in the duty-paying value”.³⁶

In every published statement by GMD leaders about the aims of Nationalist tariff policy, these aims are stated as both increasing government revenue and promoting the growth of the national economy. The evidence surveyed indicates that of these two aims, increasing government revenue to finance expenditure and manage public debt was the more important one.

CONCLUSION: TARIFF POLICY AND NATIONALIST POLICY PRIORITIES

The relative degree of fiscal stability that resulted from the National Government's fiscal policy choices cost it much political capital. When we think of Guomindang fiscal policy today, our view tends to be negative, shaped by memories of hyperinflation. We know that hyperinflation began in the latter years of the second Sino-Japanese War, and that its most acute phase—captured so vividly in Henri Cartier-Bresson's famous photograph of a queue outside a bank in 1948—did not, in fact, take place until the Chinese Civil War of 1946-1949. The classic interpretations seek to show that Guomindang fiscal policy went wrong before the second Sino-Japanese War, and that the war only exacerbated existing problems in the fundamental approach of the Nationalist Government to fiscal policy. I have advanced my views as to the wartime origins and consequences of deficit financing elsewhere.³⁷

Tracking the import trade in selected commodities, such as refined sugar in this article, allows us to analyze the effects of Guomindang tariff policy on Chinese consumers without losing sight of the fiscal and political pressures that the Nationalist Government confronted during this period. Ultimately, the National Government pursued fiscal stability at a time when it lacked the political and military strength to assert its authority throughout the entire area which it claimed to govern. Given this lack of authority, this pursuit had the negative side-effect of fostering the growth of an illegal economy, the well-known existence of which contributed much to the Guomindang's loss of political capital.

³⁴ SHAC 679/31798 P.G.S. Barentzen, Tariff Secretary, to IG of Customs, S/O No 32, January 15, 1933.

³⁵ Frank Dikötter. *Things Modern: Material Culture and Everyday Life in China* (London: Hurst, 2007): 43-44.

³⁶ SHAC 679/30470 IG of Customs Draft Despatch to Guanwu Shu, February 6, 1937, in Maze to Myers, February 9, 1937.

³⁷ Felix Boecking. “Unmaking the Chinese Nationalist State: Administrative Reform among Fiscal Collapse, 1937-1945.” *Modern Asian Studies* 45, no.2 (2011): 277-301.